

VZCZCXRO7525
PP RUEHLMC
DE RUEHLP #0279/01 0371929
ZNR UUUUU ZZH
P 061929Z FEB 06
FM AMEMBASSY LA PAZ
TO RUEHC/SECSTATE WASHDC PRIORITY 7962
INFO RUEHAC/AMEMBASSY ASUNCION 5580
RUEHBO/AMEMBASSY BOGOTA 2845
RUEHBR/AMEMBASSY BRASILIA 6715
RUEHBU/AMEMBASSY BUENOS AIRES 3928
RUEHCV/AMEMBASSY CARACAS 1289
RUEHPE/AMEMBASSY LIMA 1188
RUEHMN/AMEMBASSY MONTEVIDEO 3547
RUEHQT/AMEMBASSY QUITO 3927
RUEHSG/AMEMBASSY SANTIAGO 8443
RUEHLMC/MILLENNIUM CHALLENGE CORP
RHEHNSC/NSC WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 LA PAZ 000279

SIPDIS

SENSITIVE
SIPDIS

STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [BL](#)

SUBJECT: BANKING UPDATE: CENTRAL BANK, DEVELOPMENT BANK,
DEPOSITS

¶1. (SBU) Summary: Bolivia's Central Bank President plans to soon complete his 10-year stint as President, leaving the country in a stellar macroeconomic state, but with many uncertainties looming on the horizon. Several Venezuelan government officials recently met with Bolivia's Bank Superintendent to discuss opening branches and purchasing a Bolivian state bank, which the Superintendent speculates may be transformed into a national development bank that would give low-rate loans to farmers and microentrepreneurs, possibly at the expense of Bolivia's model microfinance sector. Compounding the risk to the sector, the press reported that the GOB plans to implement a 10% interest rate cap on loans. Although banking deposits decreased slightly during the last week of December, they recovered and even increased somewhat by the middle of January. End summary.

Central Bank Leaders to Change

¶2. (SBU) The Central Bank President, Juan Antonio Morales, told us on February 2 that the Bolivian macroeconomic situation, including the state of the banking system, is in top shape, but the future is murky due to the many uncertainties associated with the new government, including its stance on natural resource exploitation, trade, and the "neoliberal economic model" in general. On the bright side, the Central Bank has USD 2 billion in reserves, deposits are under control, international prices for Bolivia's main commodity exports are high (i.e., silver, zinc, gas), and Bolivia recently received IMF debt forgiveness and is scheduled to receive World Bank debt forgiveness in June. Morales added that the MAS is also in a good position, vis a vis domestic politics, to pull off selling gas to Chile and concluding a free trade agreement with the U.S. Despite all of these positive factors, Morales fears that the GOB may not capitalize on this opportunity to stimulate economic growth because of the many conflicting promises that it has made to a variety of interest groups and the deficiency in talented government personnel likely to result from the GOB decision to cut executive branch salaries by 50%.

13. (SBU) Morales explained that the congress would likely soon be choosing short lists of candidates to replace both himself and 4 members of the Bank's 5-person Board of Directors. Morales added that after 10 and a half years as Central Bank President, he is ready for private life. He explained that the new directors would have the authority to replace high level managers, but that the rest of the Bank staff are permanent civil service. Furthermore, the new administration has indicated that it will leave most of the Bank and the Finance Ministry staff intact, in recognition of the needed technical expertise. However, Morales did express concern about the likely diminished independence of the Finance Minister, who it seems will report to Carlos Villegas, Planning Minister, and the possible loss of personnel due to the pay cuts.

Development Bank Under Discussion -- Venezuela Link?

14. (SBU) A recent press article outlined the Bolivian government's plan to create a state development bank to provide subsidized loans, with rates as low as 5%, to farmers and small business owners. It is unclear whether this bank would be a first tier institution, providing loans directly to the public, or whether it would be a second tier institution, providing capital to lenders. The latter option would do much less harm to the financial sector than the former, particularly microfinance institutions, which could not compete with a first tier bank offering substantially below-market rates. According to our contacts at the Bank Superintendency and the Central Bank, two Venezuelan state banks have been inquiring about permission to open branches in Bolivia. One of these, the Industrial Bank of Venezuela,

LA PAZ 00000279 002 OF 002

may seek to buy the Bolivian state-owned bank, Banco de la Union. In furtherance of these goals, the Venezuelan Minister of Finance Nelson Morantes, the Venezuelan President of the National Securities Commission Fernando Jose de Candia, and the Venezuelan Bank Superintendent Trino Diaz recently met with Bolivia's Bank Superintendent in La Paz. The President of the Central Bank told us that he suspects that the Venezuelan government may be seeking to buy Banco de la Union to convert it into the Bolivian state development bank that was described in the press. If that is the case, the state development bank would likely be a first tier, direct lending organization which could substantially harm Bolivia's banking system.

15. (SBU) However, in subsequent articles, the press reported that the GOB plans to consolidate several second tier state lending funds, including the Financial System Development Fund (Fondesif), to create two banking entities in Santa Cruz and Potosi that would form the base of the state development bank. In this version of the story, the development bank would be a second tier bank that would lend to other financial institutions at a rate of 8%. According to the same report, the GOB plans to implement an interest rate cap of 10% on all lenders, which is an unsustainable rate for microlenders, particularly in rural areas. Thus, even if the state development bank turns out to have a second tier structure, the microfinance sector may be facing tough times.

Deposits Increased in 2005 and in First Half of January

16. (SBU) Deposits and portfolios increased during 2005 from USD 3.339 billion to USD 3.678 billion and from USD 3.223 billion to USD 3.360 billion respectively. Despite the political uncertainty surrounding Bolivian elections on December 18, the banking system has remained stable, although deposits showed a slight dip during the last week of December. From December 20 to January 13, deposits increased from USD 3.656 billion to USD 3.701 billion. During that same time period, total liquidity of the system also increased from USD 1.441 billion to USD 1.510 billion. Although we have not yet received figures for the end of

January, according to the Central Bank President, deposits declined slightly during the last week of the month, but the system regained almost all of the amount lost at the end of January during the first day of February.

17. Comment: Although the new administration has taken office under promising macroeconomic conditions, it remains to be seen if they will capitalize on the present opportunity to stimulate growth. Government attempts to provide credit to the many in need may backfire if they damage current institutions and prove unsustainable, as Bolivian state banks have in the past. End comment.

GREENLEE